



State Investment Commission

Monthly Meeting Minutes

Wednesday, January 25, 2012

9:00 a.m.

Room 135, State House

The Monthly Meeting of the State Investment Commission (SIC) was called to order at 9:06 a.m., Wednesday, January 25, 2012 in Room 135, State House.

I. Roll Call of Members

The following members were present: Ms. Rosemary Booth Gallogly, Mr. J. Michael Costello, Mr. Thomas Fay, Mr. Robert Giudici, Ms. Paula McNamara, Ms. Marcia Reback, Mr. Andrew Reilly and General Treasurer Gina Raimondo.

Also in attendance: Ms. Sally Dowling and Alison Albanese, of Adler Pollock, & Sheehan, Legal Counsel to the Commission; Mr. John Burns, of Pension Consulting Alliance (PCA), General Policy Consultant to the Commission; Mr. Thomas Lynch of Cliffwater, Alternative Investment Consultant to the Commission; Ms. Lisa Tyrell and Mr. Nick Katsikis, of State Street Corporation; Kenneth Goodreau, chief investment officer and members of the Treasurer's staff.

Treasurer Raimondo called the meeting to order at 9:06 a.m.

II. Approval of Minutes

On a motion by Mr. Fay and seconded by Ms. Reback, it was unanimously

VOTED: To approve the draft of the minutes of the November 23, 2011 meeting of the State Investment Commission.

III. Ocean State Investment Pool (OSIP) Investment Policy

Vincent Izzo, cash manager briefly updated the SIC on the status of OSIP's legal paperwork. He referenced Fidelity's presentation and explained the second document, the investment policy. Nothing in the investment policy violates any existing Rhode Island laws and its primary objective is safety, followed by liquidity and yield.

Treasurer Raimondo asked Mr. Izzo to explain the exemption to go over 25% in financials. He explained this is standard practice in pools like this. As an example Massachusetts has the same section in their guidelines. Fidelity's investments are completely transparent and Treasury has the ability to order them to retrench back to 25% if appropriate.

Treasurer Raimondo mentioned Fidelity must give us notification when they go above 25%. Ms. Booth Gallogly and Mr. Izzo discussed the effects on the general fund cash.

On a motion by Mr. Reilly and seconded by Mr. Giudici, it was unanimously

VOTED: To approve the OSIP Investment Policy, given Fidelity agrees to notify the SIC when they invest more than 25% in financials.

IV. Defined Contribution Plan Update

Mark Dingley, legal counsel to the Treasurer stated the RFP selection committee received all the RFP responses and the group has followed the time schedule. Ms. Booth Gallogly and Mr. Dingley selected the Segal Company to assist with the selection and they have been helpful. Mr. Dingley stated the group also needs to make some final decisions on the design of the plan, such as elective contributions and hardship withdrawals and loans. The group also needs to decide the default investment vehicle if participants do not make a selection.

V. Real Estate Consultant

Treasurer Raimondo thanked the alternatives subcommittee for meeting twice in between SIC meetings. Mr. Goodreau reviewed what the committee discussed and what they expect from the consultant going forward. He explained PCA is best equipped to deal with our portfolio and they have a dedicated staff for real estate. Mr. Goodreau recommended terminating the relationship with Townsend group and replacing them with PCA.

Mr. Costello added it helps to have PCA as real estate and general consultant and he was impressed with their presentation during the subcommittee.

Mr. Reilly explained he has heard good things from people in the industry about members of the PCA real estate team.

Treasurer Raimondo explained we will be paying PCA less than what we were paying Townsend while getting better services from PCA.

On a motion by Ms. Reback and seconded by Mr. Costello, it was unanimously

VOTED: To terminate Townsend and retain PCA as the real estate consultant for the SIC after finalization of documentation after legal counsel review.

VI. Cliffwater Presentation

Mr. Lynch proposed fourth allocation of hedge fund to reduce total volatility to improve the Sharpe ratio for the portfolio. Mr. Lynch recommended Brigade for the final allocation to fixed income and Partner Fund Management (PFM) for the second to last allocation to global equity. Mr. Lynch recommended \$60 million to PFM and \$50 million to Brigade. For PFM, Mr. Lynch recommended half the allocation to share class B, the more liquid vehicle and half to share class A1. PFM only allows 50% to be in the more liquid vehicle.

Mr. Lynch explained each fund has gone through their investment, operations and legal due diligence and provided a detailed overview of each. He stated, relative to Cliffwater's universe Brigade and PFM were in the top quartile of fund managers for performance.

On a motion by Mr. Fay and seconded by Mr. Giudici, it was unanimously

VOTED: to approve the recommendation made by Cliffwater on page two of five of the presentation, subject to negotiation and finalization of documentation after legal counsel review.

VII. General Consultant Presentation

Mr. Burns reviewed the PCA risk metric report. He took the committee through the major changes in the past year including the asset liability study and the addition of hedge funds to the portfolio. He explained a lot of the bonds have a negative real return and proposed a group analysis of interest rate risk. Mr. Burns stated if interest rates rise quickly, fixed income will post negative returns.

Treasurer Raimondo reiterated 20% of the portfolio is a large allocation.

Mr. Goodreau explained we might also look into how rising interest rates would affect the entire portfolio, especially with real estate. He also stated he sold some TIPS at an all time high last year, reducing the allocation from 8% to 4%. The hedge fund allocation has allowed this part of the portfolio to become more diversified from TIPS. Mr. Goodreau said some things have been done that will help, but there is more to do.

VIII. Meeting Schedule

To assure all members would be present for the defined contribution manager selection, Ms. Booth Gallogly motioned, Ms. Reback seconded, and it was unanimously

VOTED: to move the February meeting from the 22nd to the 27th at 9:00am.

IX. Legal Counsel Report

Ms. Dowling updated the board on the paperwork for the seven hedge fund closings and the OSIP.

X. Chief Investment Officer Report

Mr. Goodreau explained the standard deviation of what has recently been put in the portfolio is a lot lower than the level the last twelve months.

Mr. Fay asked about Wellington and Mr. Goodreau mentioned Mr. Burns and himself will be meeting with them for a yearly review soon.

Mr. Goodreau introduced Kerri Baker, Renee Asptan and Kem Edwards new members of Treasury's investment team and explained the new structure of the office.

XI. Treasurer's Report

Treasurer Raimondo explained the Treasury investment staff has made a trip to Cliffwater to learn the performance and risk monitoring system. She stated we need to be focused on the downside and reiterated we cannot have a negative -20% year like there was in 2008 /2009.

XII. Adjournment

There being no other business to come before the Board, on a motion by Ms. Reback and seconded by Mr. Reilly the meeting adjourned at 10:07 a.m.

Respectfully submitted,

Gina M. Raimondo
General Treasurer